

CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

July 17, 2001

The Capital Projects and Bond Oversight Committee met on Tuesday, July 17, 2001, at 1:00 PM, in Room 129 of the Capitol Annex. Representative Jodie Haydon, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Jodie Haydon, Chair; Senator Robert Leeper, Vice Chairman; Senator Bob Jackson; and Representatives Paul Marcotte and Jim Wayne.

Guests testifying before the Committee: Commissioner Armond Russ, Department for Facilities Management; Robin Kinney, Finance and Administration Cabinet; Michael Hardy, Kentucky Center for the Arts; and Tom Howard, Office of Financial Management.

LRC Staff: Mary Lynn Collins, Pat Ingram, Kevin Mason, Nancy Osborne, and Shawn Bowen.

Representative Marcotte made a motion to approve the minutes of the June 19, 2001, meeting as submitted. The motion was seconded by Representative Wayne and passed by voice vote.

Chairman Haydon called on Mary Lynn Collins, Committee Staff Administrator, to review various correspondence and information items included in members' folders. Among the items she reviewed was correspondence from Angela Martin, Vice President for Finance, Council on Postsecondary Education, regarding universities' use of trailers/mobile homes as student housing; quarterly construction reports; and the Kentucky Lottery Corporation's monthly financial status report for May 2001.

Ms. Collins also noted that in members' folders was a copy of General Fund Budget Reduction Order 01-02, as well as information on the Budget Reserve Trust Fund, which was used to address, in part, the budget shortfall. She said this is the second budget reduction order within the last several months. In this latest order, \$17.3 million was taken from the Budget Reserve Trust Fund, making a total of \$38.8 million in trust funds used to deal with the budget shortfall for the fiscal year which ended June 30, 2001. Ms. Collins said there will be another budget reduction order for the current fiscal year, and another \$120 million could be taken from the Trust Fund.

Ms. Collins said the State Budget Office stressed in a briefing last week that one of the goals of the Administration as they work through the budget reductions is not to freeze or delay capital construction funds.

Representative Wayne asked how the use of the Budget Reserve Trust Fund will affect the state's bond rating. Ms. Collins said the purpose of the Budget Reserve Trust Fund is for situations like the budget shortfall; the existence of such a fund has had a positive effect on the state's bond rating.

Ms. Collins indicated she would ask a representative of the Finance and Administration Cabinet to report to the Committee next month on the bond rating agencies' reaction to the state's use of the Budget Reserve Trust Fund to help balance the budget.

Representative Marcotte said he has been approached by Commonwealth's Attorneys who are concerned about anticipated reductions in their office budgets for the next fiscal year. He said the Commonwealth's Attorneys think it is critical that they be able to maintain their operating budgets. Chairman Haydon said he had also heard from a Commonwealth's Attorney regarding proposed budget reductions.

Chairman Haydon said the Finance Secretary, the Attorney General, the Auditor of Public Accounts, and the President of the Council on Postsecondary Education are reviewing, as requested by the Committee, the proposal by Western Kentucky University (WKU) to transfer ownership of E. A. Diddle Arena to the City of Bowling Green. (Under this proposal, the City would issue bonds to renovate the arena, to be financed with income earned from various University athletic facilities. The University would continue to manage the arena.) He said certain documents needed by the state officials prior to making final recommendations are not yet available, and for that reason, the issue has been deferred until the Committee's August meeting.

Representative Wayne said Committee members should be aware of the fact that WKU is already scheduled to hold the Sunbelt Conference Tournament in March 2003, based on the E.A. Diddle Arena renovation. He said WKU has put this project on the fast-track, but he urged Committee members to avoid feeling any pressure regarding the tournament as they review the proposal. He stressed the proposal needs to be considered in the larger context of state universities giving away property.

Chairman Haydon then introduced Ms. Robin Kinney, Finance and Administration Cabinet, and Commissioner Armond Russ, Department for Facilities Management, to discuss a project report submitted by the Finance and Administration Cabinet.

Ms. Kinney reported a \$60,000 federally-funded scope increase for the Kentucky Emergency Annex project at the Boone National Guard Center in Frankfort. This

unbudgeted federally-funded project was approved by the Committee at its September 19, 2000 meeting at a scope of \$700,000. The scope increase will be used to award the construction contract, including a bid alternate to construct a vehicle bay and to service, repair and install communication equipment in emergency vehicles.

Senator Leeper made a motion to approve the scope increase. The motion was seconded by Senator Jackson and passed by voice vote. The revised project scope is \$760,000.

Ms. Kinney then reported a \$140,000 privately-funded scope increase for the Kentucky Center for the Arts Enhancement project. This project was funded by the 1998 General Assembly for \$4,500,000 and received an allocation of \$675,000 from the Capital Construction and Equipment Purchase Contingency Account in July 1999. Ms. Kinney said the scope increase will be used to construct a ticket office and a gift shop. Prior to award of the contract, the ticket office and gift shop were deleted from the project because of budget concerns. It has since been concluded that these two items can be added through a change order and be funded from money remaining in the project budget and the additional \$140,000.

Representative Wayne said one of the things the Committee was concerned about previously was that the smoking lobby be paid for by the tobacco industry with private donations. He asked if the scope increase is due to the increase in cost in the smoking lobby and if the tobacco industry is providing the private funds for the scope increase. Mr. Michael Hardy, Executive Director, Kentucky Center for the Arts, said there was a total of \$300,000 received a few years ago from the tobacco industry, and held under a restricted account for this project. He said it has always been understood that these funds would become a part of the project at some point during the construction process. The smoking lobby was part of the project that was originally bid, and is being constructed with the budget that is in place.

Representative Wayne asked if the tobacco industry's money is paying for the smoking lobby. Mr. Hardy said the tobacco money is still held under the restricted account and has not been, until now, part of the budget for the project.

Representative Wayne said his understanding was the tobacco industry would pay for the smoking lobby, and other funds would pay for enhancements. Mr. Hardy said the tobacco industry was interested in building the smoking lobby and they did contribute \$300,000 towards the smoking lobby. He said it was always understood that the money would be put in a pool to be used to finish all the enhancements to the Center. He said they were instructed to hold off applying that pool until the time when it would actually be necessary. He said the smoking lobby costs well over \$300,000, and it was never contemplated it would be paid for entirely with private funds. Ms. Collins indicated that

in the Committee's earlier review, it was agreed that none of the funds from the Contingency Account would be used for the smoking lobby.

Senator Jackson made a motion to approve the scope increase. The motion was seconded by Representative Wayne and passed by voice vote. The revised project scope is \$5,175,000.

The last project Ms. Kinney discussed was a \$5 million allocation from the Economic Development Cabinet's High Tech Construction Pool for the Eastern Kentucky University (EKU) Innovation and Commercialization Center. She said the Finance and Administration Cabinet has given its approval for EKU to combine its Business and Technology Building project, the Innovation and Commercialization Center, and the Southeast Kentucky Center for Business Technology into one project. Ms. Kinney said the combined project scope is \$14 million and represents Phase One of a project that is expected to total \$30-\$40 million when completed. Chairman Haydon said no action was required for this project.

Chairman Haydon then called on Mr. Tom Howard, Deputy Executive Director of the Office of Financial Management, to present the agency's bond activity report. Mr. Howard first reported a new bond issue: Kentucky Housing Corporation (KHC) Housing Revenue Bonds, 2001 Series F (\$60,000,000). The proceeds will be used to purchase mortgages for first-time low and moderate income Kentucky homebuyers. Mr. Howard noted that in this issue, KHC is using two-thirds of its private activity bond allocation.

Representative Wayne made a motion to approve the new bond issue for KHC. The motion was seconded by Senator Jackson and passed by voice vote.

Next, Mr. Howard reported another new bond issue: State Property and Buildings Commission (SP&BC) Revenue Bonds, Project No. 71, in an amount not to exceed \$265,000,000. The proceeds will be used to provide permanent financing for the remainder of the Community Development projects authorized by the 2000 General Assembly.

Senator Jackson made a motion to approve the new bond issue for SP&BC. The motion was seconded by Representative Marcotte and passed by voice vote.

Representative Wayne asked why the bond ratings for this issue are lower (AA-) than the AAA bond ratings for the issue just discussed. Mr. Howard said KHC's AAA bond rating is based upon its indenture as a stand-alone security with federal government mortgages, whereas the state issue is a lease appropriation subject to biennial appropriations of the legislature to meet the debt service payments.

Mr. Howard next reported a new bond issue for the Kentucky Economic Development Finance Authority (KEDFA) Hospital Facilities Revenue Refunding and Improvement Bonds, Series 2001 for Catholic Healthcare Partners (not to exceed \$30 million). The issue will provide new money improvements for a variety of facilities in Irvine, Louisville, and Paducah.

Senator Leeper made a motion to approve the new bond issue for KEDFA. The motion was seconded by Senator Jackson and passed by voice vote.

Mr. Howard presented three follow-up reports: Eastern Kentucky University Housing System Revenue Bonds, Series N, dated May 1, 2001 (\$2,255,000); Murray State University Housing and Dining System Revenue Bonds, Series O, dated June 1, 2001 (\$1,610,000); and Kentucky Asset/Liability Commission General Fund Tax and Revenue Anticipation Notes, 2001 Series A and B (\$656,186,400). Chairman Haydon said no action is required for these follow-up reports.

Lastly, Mr. Howard reported two new bond issues with School Facilities Construction Commission (SFCC) debt service participation: Crittenden County and Larue County; and one amended school bond issue with SFCC debt service participation: Williamsburg Independent (Whitley Co.).

Senator Jackson made a motion to approve the school bond issues with SFCC debt service participation. The motion was seconded by Representative Wayne and passed by voice vote.

Chairman Haydon said there were two locally-funded school bond issues submitted to the Committee for review this month: Bullitt County and Covington Independent (Kenton Co.). He said all disclosure information has been filed, and no further action on these bond issues is required.

With there being no further business, Representative Wayne made a motion to adjourn the meeting. The motion was seconded and passed by voice vote. The meeting adjourned at 1:30 p.m.